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*Attorneys for Federal Home Loan Bank of Pittsburgh*

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

**In re:**  
**LEHMAN BROTHERS HOLDINGS INC., et al.,**  
**Debtors.**

**Chapter 11**  
**Case No. 08-13555 (JMP)**

**Jointly Administered**

**Objection Deadline: July 25, 2013 at 12:00 p.m.  
(Prevailing Eastern Time)**

**DECLARATION OF THOMAS B. HATCH IN SUPPORT OF  
RESPONSE OF FEDERAL HOME LOAN BANK OF PITTSBURGH TO DEBTORS'  
OBJECTION TO MBS CLAIMS AND REQUEST FOR SUBORDINATION PURSUANT  
TO SECTIONS 510(a)-(c) OF THE BANKRUPTCY CODE**

Thomas B. Hatch states as follows:

1. I am a partner in the law firm of Robins, Kaplan, Miller & Ciresi L.L.P. which is counsel to Federal Home Loan Bank of Pittsburgh ("FHLB"), a creditor and party in interest in

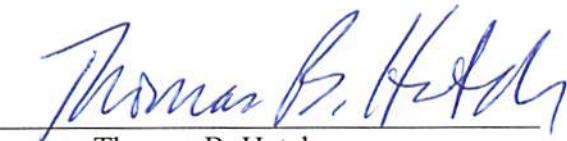
the captioned cases. I am of legal age, competent to be a witness, and state the following on my personal knowledge and belief.

2. This Declaration is made in support of the response of FHLB to the Objection To CMBS Claims and Request for Subordination Pursuant to Sections 510(a)-(c) of the Bankruptcy Code dated April 25, 2013 (the “CMBS Objection”), filed by Lehman Brothers Holdings Inc. (“LBHI”), and its debtor affiliates (collectively, the “Debtors”).

3. Attached hereto as Exhibit A and Exhibit B are the “true sale” legal opinions that appear to have been issued in connection with the Debtors’ preparation and offering of Structured Adjustable Rate Mortgage Loan Trust Mortgage Pass-Through Certificates Series 2007-10 and Structured Adjustable Rate Mortgage Loan Trust Mortgage Pass-Through Certificates Series 2007-11. These documents were produced to FHLB in response to a subpoena issued in connection with litigation pending in the Court of Common Pleas in Allegheny County, Pennsylvania.

4. Attached hereto as Exhibit C is a presentation titled “An Overview of the CMBS Business” and dated February 2008, which was located on the internet at [jenner.com/lehman/docs/debtors](http://jenner.com/lehman/docs/debtors). The document indicates that it was prepared by Lehman Brothers.

I declare under penalty of perjury that the foregoing is true and correct this 24th day of July, 2013.



Thomas B. Hatch

Exhibit 1



30 Rockefeller Plaza  
New York, NY 10112-2200  
+1 212 698 3500 Main  
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www.dechert.com

October 30, 2007

Lehman Brothers Inc.  
745 7th Avenue, 13th Floor  
New York, New York 10019

Standard & Poor's, a division of  
The McGraw-Hill Companies, Inc.  
55 Water Street, 41st Floor  
New York, New York 10004

Structured Asset Securities  
Corporation  
745 Seventh Avenue, 7th Floor  
New York, New York 10019

Fitch Ratings, Inc.  
One State Street Plaza  
New York, NY 10004

Re: Structured Adjustable Rate Mortgage Loan Trust Mortgage Pass-Through Certificates Series 2007-10

Ladies and Gentlemen:

We have acted as counsel for Structured Asset Securities Corporation (the "Company") in connection with the sale by the Company of Mortgage Pass-Through Certificates, Series 2007-10 (the "Certificates"). The Certificates evidence specified interests in two pools of mortgage loans (the "Mortgage Loans") and certain other property (collectively, the "Trust Fund") conveyed by the Company to U.S. Bank National Association, as trustee (the "Trustee"), pursuant to the Trust Agreement. The Company purchased certain Mortgage Loans from Lehman Brothers Holdings Inc. ("LBH") pursuant to a Mortgage Loan Sale and Assignment Agreement, dated October 1, 2007 (the "Sale Agreement"), by and between LBH, as seller, and the Company, as purchaser. The Certificates are issued under the terms of a Trust Agreement (the "Trust Agreement"), dated as of October 1, 2007, among the Company, Aurora Loan Services LLC, as master servicer and the Trustee. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Trust Agreement.

In connection with the foregoing, we have made such legal and factual examinations and inquiries as we have deemed necessary or advisable for the purpose of rendering the opinions expressed herein, including but not limited to examination of the following:

1. the Trust Agreement;
2. the Sale Agreement;
3. the forms of Certificates;
4. a Certificate of the Company, dated the date hereof (the "Company's Officer's Certificate"), with respect to certain factual matters related to the transfer of the

U.S. Austin Boston Charlotte Harrisburg Hartford New York Newport Beach Palo Alto Philadelphia Princeton  
San Francisco Washington DC EUROPE Brussels London Luxembourg Munich Paris

CONFIDENTIAL TREATMENT REQUESTED BY TRUSTEE FOR LBI

HHR\_LBI\_FHLB\_005387



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Standard & Poor's, a division of The  
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Moody's Investors Service, Inc.  
Fitch Ratings, Inc.  
October 30, 2007  
Page 2

Mortgage Loans pursuant to the Trust Agreement and the transactions involving the Company contemplated by the Trust Agreement;

5. the Assignment and Assumption Agreement (the "Assignment and Assumption Agreement"), dated as of October 1, 2007, by and between Lehman Brothers Bank, FSB (the "Bank") and LBH and certain Bills of Sale (the "Bills of Sale"), issued pursuant to a related purchase price and terms letter between the Bank, as seller and LBH, as purchaser (the Assignment and Assumption Agreement or the related Bills of Sale shall collectively be referred to herein as an "Assignment Agreements");
6. a Certificate of LBH, dated the date hereof (the "LBH's Officer's Certificate"), with respect to certain factual matters related to the assignment of certain Mortgage Loans to LBH pursuant to the Assignment Agreements and the transfer of the Mortgage Loans pursuant to the Sale Agreement and the transactions involving LBH contemplated by the Sale Agreement;
7. the other documents, certificates, letters and opinions being delivered in connection with the closing of the transactions contemplated by the Trust Agreement; and
8. such other documents as we have deemed appropriate in order to reach the opinions contained herein.

In rendering the opinion set forth below, we have made no independent investigation of the facts referred to herein and have relied exclusively as to factual matters upon the truth of representations included in the Sale Agreement and the Trust Agreement and the other documents, certificates, letters and opinions delivered at the closing on the transactions contemplated by the Sale Agreement and the Trust Agreement. In particular, we have assumed, without independent investigation, the accuracy of the statements contained in LBH's Officer's Certificate and in the Company's Officer's Certificate.

The opinions set forth below are limited to Title 11 of the United States Code (the "Bankruptcy Code"). We express no opinion with respect to the ability of any person to obtain a temporary restraining order, or other temporary relief, prohibiting or limiting the ability of any person or entity to obtain any property of LBH or the Company or any property held by LBH or the Company prior to a final judicial resolution of an assertion that the automatic stay provisions of Section 362 of the Bankruptcy Code preclude such action. We also direct your attention to the



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fact that we are not aware of any judicial precedent or statute which directly controls the question of whether the transfer of (i) the Mortgage Loans by LBH to the Company under the Sale Agreement constitutes a true sale of the Mortgage Loans as opposed to a financing thereof or (ii) the Mortgage Loans by the Company to the Trustee under the Trust Agreement constitutes a true sale of the Mortgage Loans as opposed to a financing thereof.

On the basis of the foregoing, we are of the opinion that (i) in the event of the insolvency or bankruptcy of LBH, upon motion by a trustee in bankruptcy of LBH, a creditor of LBH or LBH itself as debtor-in-possession under the Bankruptcy Code, a court would not characterize the transfer of the Mortgage Loans by LBH to the Company under the Sale Agreement as a loan secured by a pledge of the Mortgage Loans rather than a sale of the Mortgage Loans, or, as a result, hold that the Mortgage Loans or any proceeds thereof constitute property of LBH's estate under Section 541 of the Bankruptcy Code or that the Mortgage Loans or any proceeds thereof are subject to the automatic stay provisions of Section 362(a) of the Bankruptcy Code and (ii) in the event of the insolvency or bankruptcy of the Company, upon motion by a trustee in bankruptcy of the Company, a creditor of the Company or the Company itself as debtor-in-possession under the Bankruptcy Code, a court would not characterize the transfer of the Mortgage Loans by the Company to the Trustee under the Trust Agreement as a loan secured by a pledge of the Mortgage Loans rather than a sale of the Mortgage Loans, or, as a result, hold that the Mortgage Loans or any proceeds thereof constitute property of the Company's estate under Section 541 of the Bankruptcy Code or that the Mortgage Loans or any proceeds thereof are subject to the automatic stay provisions of Section 362(a) of the Bankruptcy Code.

In rendering the opinions expressed above, we express no opinion herein as to the effect of the laws of any jurisdiction other than the Federal laws of the United States of America and the laws of the State of New York.

The opinion set forth above is expressed solely for the benefit of the addressees and may not be relied upon by any other person or entity without our prior written consent.

Notwithstanding any language to the contrary in this letter, the Company and its affiliates are authorized to make available to their auditors the opinions set forth above solely as evidential matter in support of the auditors' evaluation of management's assertion that the transfer of the Mortgage Loans meets the isolation criterion of Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, provided that a copy of this letter is furnished to them in connection therewith. In authorizing the Company and its affiliates to make copies of such opinions available to their auditors for such purpose, we are not undertaking or assuming any duty or obligation to the

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October 30, 2007  
Page 4

Company's or its affiliate's auditors or establishing any lawyer-client relationship with them. Further, we do not undertake or assume any responsibility with respect to financial statements of the Company or its affiliates.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dechert LLP".

Exhibit 2



30 Rockefeller Plaza  
New York, NY 10112-2200  
+1 212 698 3500 Main  
+1 212 698 3599 Fax  
[www.dechert.com](http://www.dechert.com)

November 30, 2007

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One State Street Plaza  
New York, NY 10004

Re: Structured Adjustable Rate Mortgage Loan Trust Mortgage Pass-Through Certificates Series 2007-11

Ladies and Gentlemen:

We have acted as counsel for Structured Asset Securities Corporation (the "Company") in connection with the sale by the Company of Mortgage Pass-Through Certificates, Series 2007-11 (the "Certificates"). The Certificates evidence specified interests in three pools of mortgage loans (the "Mortgage Loans") and certain other property (collectively, the "Trust Fund") conveyed by the Company to Wells Fargo Bank, N.A., as trustee (the "Trustee"), pursuant to the Trust Agreement. The Company purchased certain Mortgage Loans from Lehman Brothers Holdings Inc. ("LBH") pursuant to a Mortgage Loan Sale and Assignment Agreement, dated November 1, 2007 (the "Sale Agreement"), by and between LBH, as seller, and the Company, as purchaser. The Certificates are issued under the terms of a Trust Agreement (the "Trust Agreement"), dated as of November 1, 2007, among the Company, Aurora Loan Services LLC, as master servicer and the Trustee. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Trust Agreement.

In connection with the foregoing, we have made such legal and factual examinations and inquiries as we have deemed necessary or advisable for the purpose of rendering the opinions expressed herein, including but not limited to examination of the following:

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November 30, 2007  
Page 2

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6. a Certificate of LBH, dated the date hereof (the "LBH's Officer's Certificate"), with respect to certain factual matters related to the assignment of certain Mortgage Loans to LBH pursuant to the Assignment Agreements and the transfer of the Mortgage Loans pursuant to the Sale Agreement and the transactions involving LBH contemplated by the Sale Agreement;
7. the other documents, certificates, letters and opinions being delivered in connection with the closing of the transactions contemplated by the Trust Agreement; and
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In rendering the opinion set forth below, we have made no independent investigation of the facts referred to herein and have relied exclusively as to factual matters upon the truth of representations included in the Sale Agreement and the Trust Agreement and the other documents, certificates, letters and opinions delivered at the closing on the transactions contemplated by the Sale Agreement and the Trust Agreement. In particular, we have assumed, without independent investigation, the accuracy of the statements contained in LBH's Officer's Certificate and in the Company's Officer's Certificate.

The opinions set forth below are limited to Title 11 of the United States Code (the "Bankruptcy Code"). We express no opinion with respect to the ability of any person to obtain a temporary restraining order, or other temporary relief, prohibiting or limiting the ability of any person or entity to obtain any property of LBH or the Company or any property held by LBH or the Company prior to a final judicial resolution of an assertion that the automatic stay provisions of Section 362 of the Bankruptcy Code preclude such action. We also direct your attention to the



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On the basis of the foregoing, we are of the opinion that (i) in the event of the insolvency or bankruptcy of LBH, upon motion by a trustee in bankruptcy of LBH, a creditor of LBH or LBH itself as debtor-in-possession under the Bankruptcy Code, a court would not characterize the transfer of the Mortgage Loans by LBH to the Company under the Sale Agreement as a loan secured by a pledge of the Mortgage Loans rather than a sale of the Mortgage Loans, or, as a result, hold that the Mortgage Loans or any proceeds thereof constitute property of LBH's estate under Section 541 of the Bankruptcy Code or that the Mortgage Loans or any proceeds thereof are subject to the automatic stay provisions of Section 362(a) of the Bankruptcy Code and (ii) in the event of the insolvency or bankruptcy of the Company, upon motion by a trustee in bankruptcy of the Company, a creditor of the Company or the Company itself as debtor-in-possession under the Bankruptcy Code, a court would not characterize the transfer of the Mortgage Loans by the Company to the Trustee under the Trust Agreement as a loan secured by a pledge of the Mortgage Loans rather than a sale of the Mortgage Loans, or, as a result, hold that the Mortgage Loans or any proceeds thereof constitute property of the Company's estate under Section 541 of the Bankruptcy Code or that the Mortgage Loans or any proceeds thereof are subject to the automatic stay provisions of Section 362(a) of the Bankruptcy Code.

In rendering the opinions expressed above, we express no opinion herein as to the effect of the laws of any jurisdiction other than the Federal laws of the United States of America and the laws of the State of New York.

The opinion set forth above is expressed solely for the benefit of the addressees and may not be relied upon by any other person or entity without our prior written consent.

Notwithstanding any language to the contrary in this letter, the Company and its affiliates are authorized to make available to their auditors the opinions set forth above solely as evidential matter in support of the auditors' evaluation of management's assertion that the transfer of the Mortgage Loans meets the isolation criterion of Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, provided that a copy of this letter is furnished to them in connection therewith. In authorizing the Company and its affiliates to make copies of such opinions available to their auditors for such purpose, we are not undertaking or assuming any duty or obligation to the

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November 30, 2007  
Page 4

Company's or its affiliate's auditors or establishing any lawyer-client relationship with them.  
Further, we do not undertake or assume any responsibility with respect to financial statements of  
the Company or its affiliates.

Very truly yours,

*Dechert LLP*

**Exhibit 3**

***Confidential***

# An Overview of the CMBS Business

Kenneth Cohen

*Head of Global Origination*

James Im

*Head of CMBS Trading*

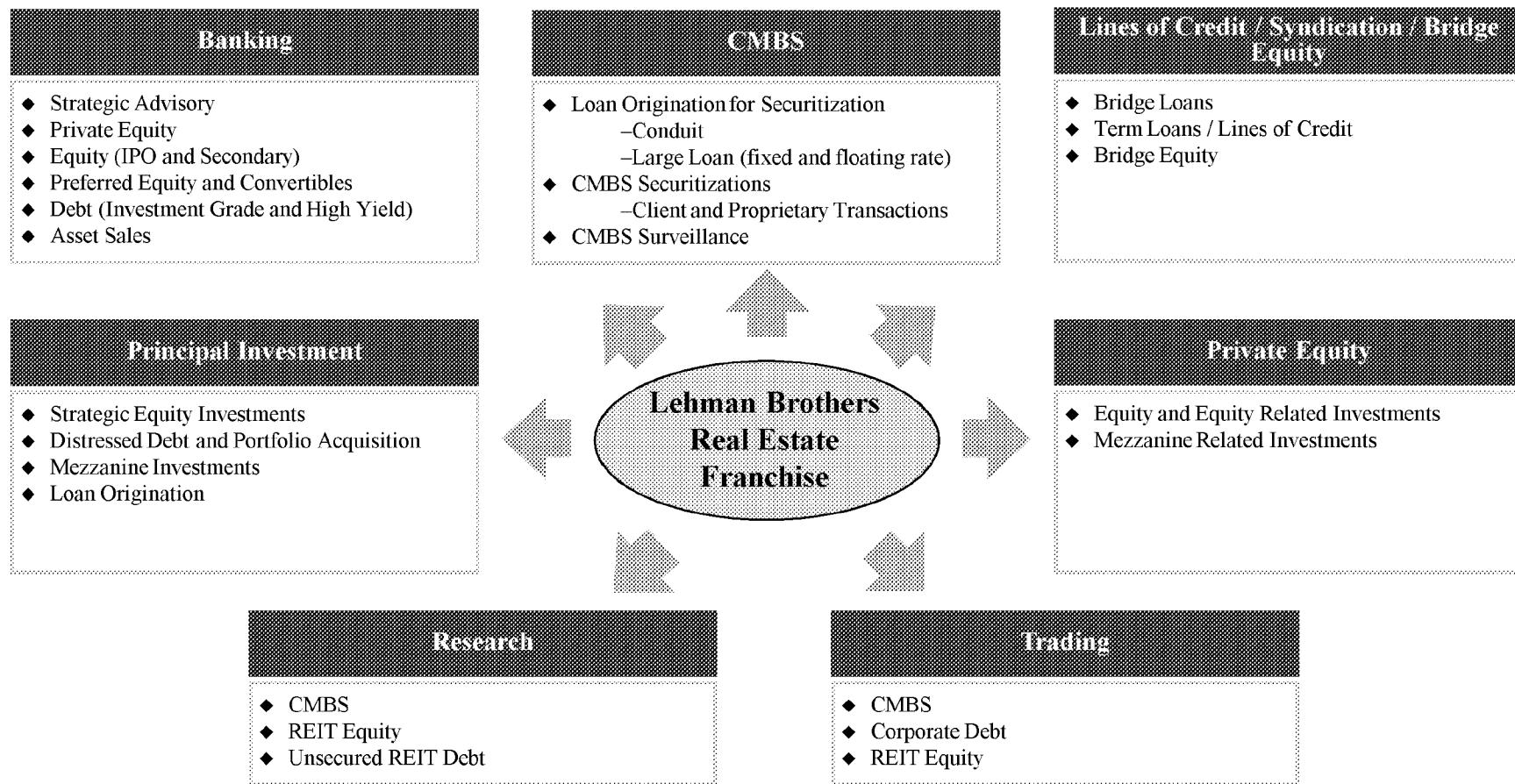
February 2008

# LEHMAN BROTHERS

LBEX-WGM 000574

# The Lehman Brothers Global Real Estate Business

## Lehman Brothers' Global Real Estate Group is a dominant player in all products and markets



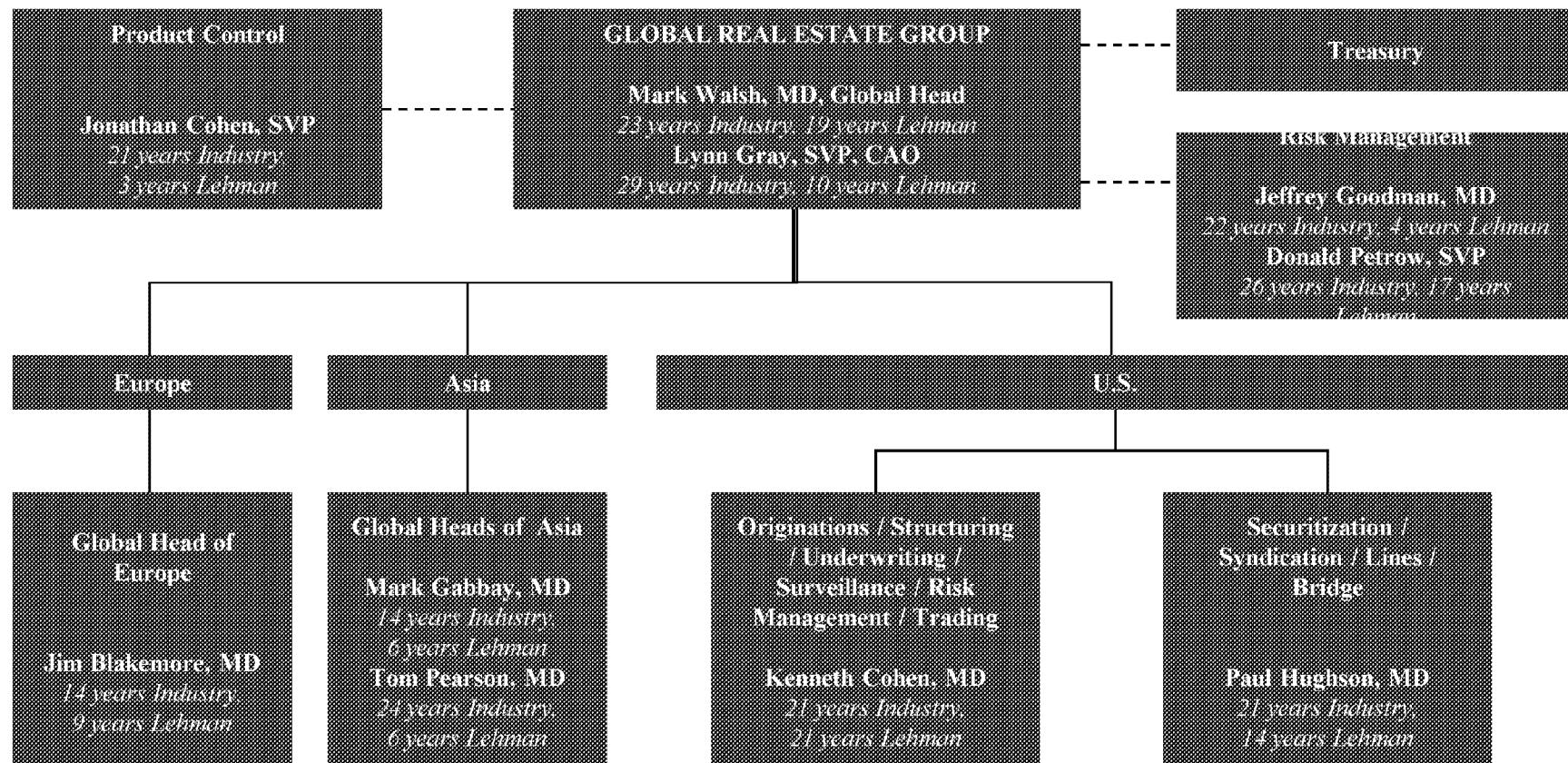
LEHMAN BROTHERS

2

LBEX-WGM 000575

# The Lehman Brothers Global Real Estate Business

**The Global Real Estate Group is comprised of more than 400 professionals worldwide and is led by seasoned managers who have significant longevity both at Lehman Brothers and in the real estate industry**



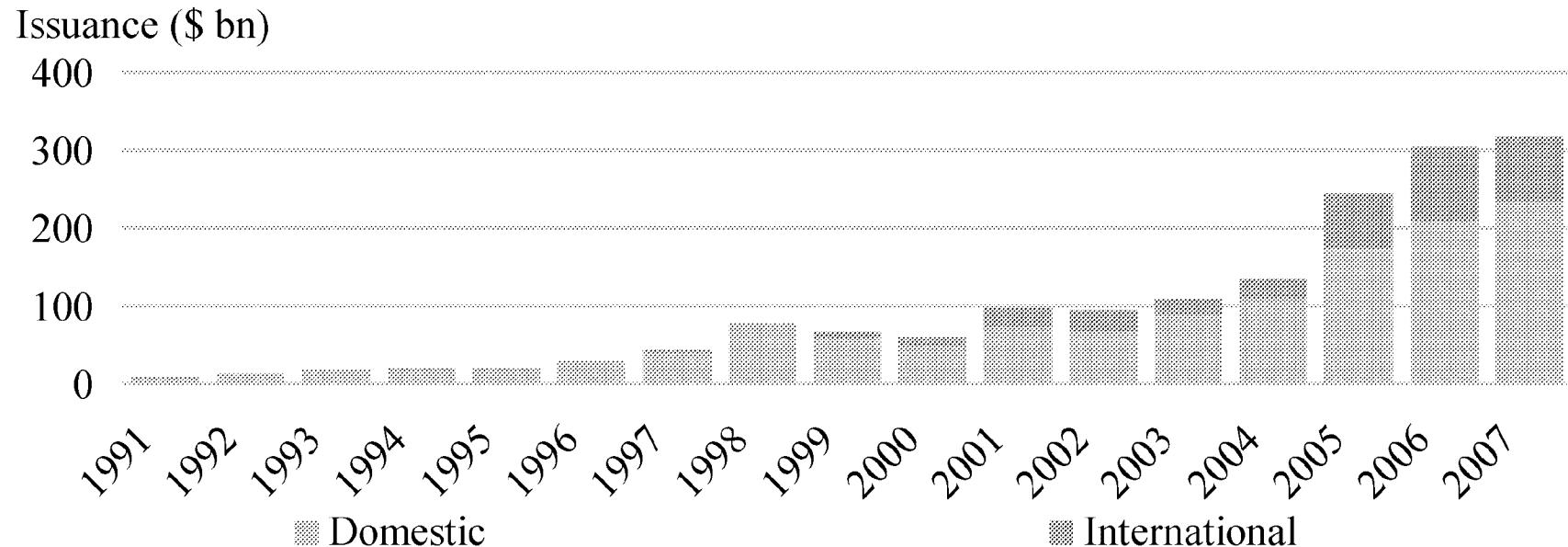
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# Overview of the CMBS Market

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## Trends in CMBS Product Supply

- ◆ Banner year in '06; Market Volatility hurts '07 (especially 2<sup>nd</sup> half)



- ◆ 2006 was a record year with \$305 bn in total issuance of which \$209 bn was domestic
- ◆ 2007 new issuance amounted to \$318bn, of which \$233 bn was domestic

*Source: Commercial Mortgage Alert.*

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LEHMAN BROTHERS

# Overview of the CMBS Market

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## Outstanding Domestic CMBS Market: Transaction Types

<b>Transaction Type</b>	<b>Current Balance (\$B)</b>	<b>No. of deals</b>
Conduit/Fusion	768	521
Agency CMBS	35	166
Large Loan/Short Term	38	72
Single Asset/Borrower	30	80
<b>Total</b>	<b>871</b>	<b>839</b>

# Overview of the CMBS Market

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## Domestic Issuance Breakdown: Fixed vs. Floating

Year	Fixed	% of Issuance	Floating	% of Issuance	TOTAL
1997	\$37.22	92.01%	\$3.23	7.99%	\$40.45
1998	\$64.67	83.20%	\$13.06	16.80%	\$77.73
1999	\$48.85	83.93%	\$9.35	16.07%	\$58.20
2000	\$38.10	77.91%	\$10.80	22.09%	\$48.90
2001	\$61.72	83.09%	\$12.56	16.91%	\$74.28
2002	\$56.72	85.23%	\$9.83	14.77%	\$66.55
2003	\$72.18	82.22%	\$15.61	17.78%	\$87.79
2004	\$95.01	86.59%	\$14.71	13.41%	\$109.72
2005	\$154.02	88.67%	\$19.69	11.33%	\$173.71
2006	\$181.98	87.03%	\$27.13	12.97%	\$209.11
2007	\$212.25	91.05%	\$20.87	8.95%	\$233.12

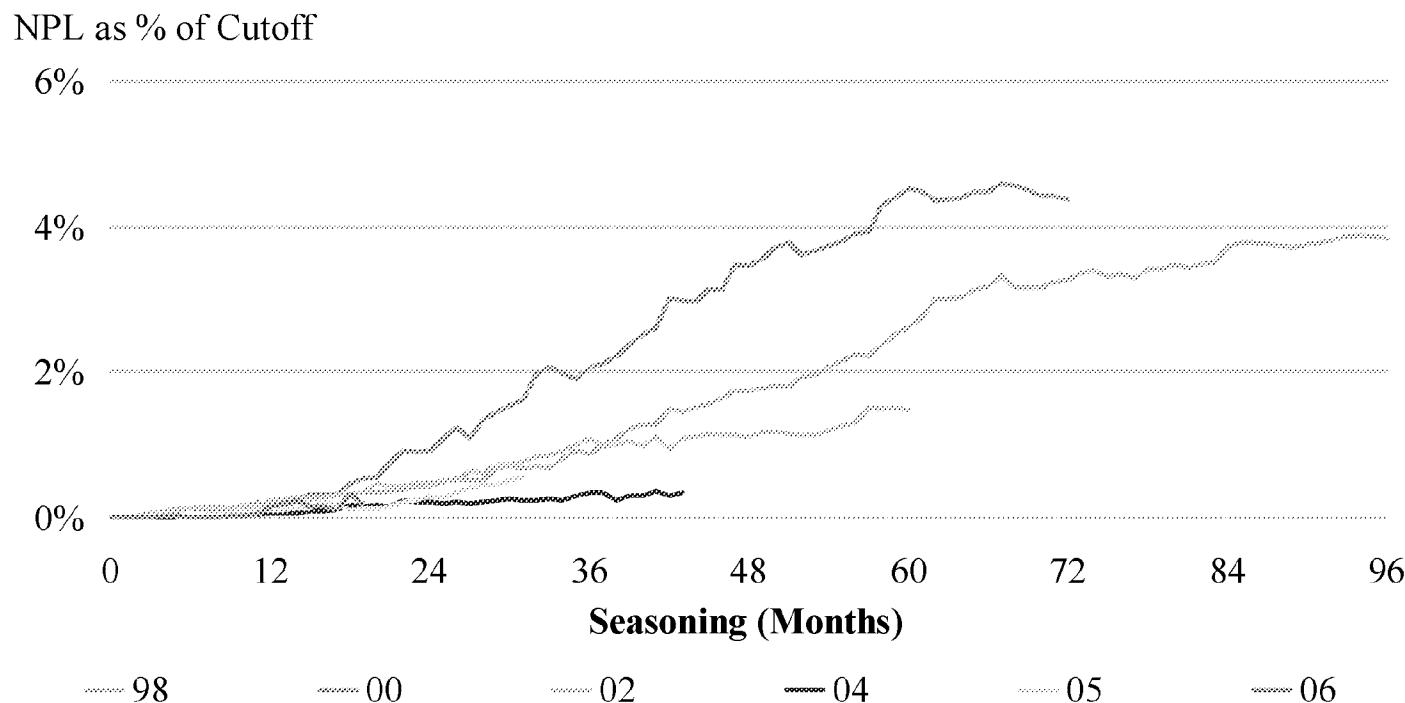
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# Overview of the CMBS Market

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## As Expected, Delinquencies Tend To Rise With Age



- ◆ **NPL (Non-Performing Loans) = 60+ day delinquencies and cumulative liquidations as % of original loan balance**
- ◆ **There is a clear seasoning pattern in credit performance across vintages**
- ◆ **Transactions encounter few problems in first 2 years post-securitization**
- ◆ **Cumulative non-performing rate-**  
**1998 vintage: 3.95%; 2002 vintage: 1.62%; 2006 vintage: 0.27%**

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# Overview of CMBS Market

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## Performance by Property Type of Loans Originated Since 1994

Contributor	Outstanding Issuance			Delinq. & Specially Serviced Loans		
	Current (\$B)	Pct. (%)	Age (yrs)	60+ Days* (%)	Liquid** (%)	60+ & Liq.** (%)
Self Storage	\$14.1	1.97	3.5	0.12	0.05	0.15
Manu. Housing	13.3	1.90	4.3	0.15	0.31	0.43
Multifamily	123.6	17.35	4.3	1.04	1.33	2.15
Retail	225.6	31.34	3.8	0.15	0.57	0.70
Office	228.6	31.75	3.1	0.15	0.63	0.76
Industrial	40.3	5.48	3.9	0.32	1.16	1.43
Other	11.3	1.51	2.6	0.35	0.70	1.01
Credit Tenant Loan	3.2	0.46	9.1	0.98	5.15	5.72
Hotel	55.8	7.79	3.7	0.45	2.52	2.89
Healthcare	2.9	0.42	7.8	0.28	9.14	9.29
<b>Total</b>	<b>\$718.6</b>	<b>100.0%</b>	<b>3.7</b>	<b>0.34</b>	<b>0.99</b>	<b>1.29</b>

\*Percentage of Current Balance

\*\*Percentage of Original Balance

- ◆ The core property types (Retail, Multifamily, Office) comprise more than 80% of the collateral.
- ◆ Three of the non-core property types (Credit Tenant Loan, Hotel, and Healthcare) have shown worst performance.

*As of January 2008*

Source: Trepp, LLC; age adjusted by Lehman Brothers Surveillance Database.

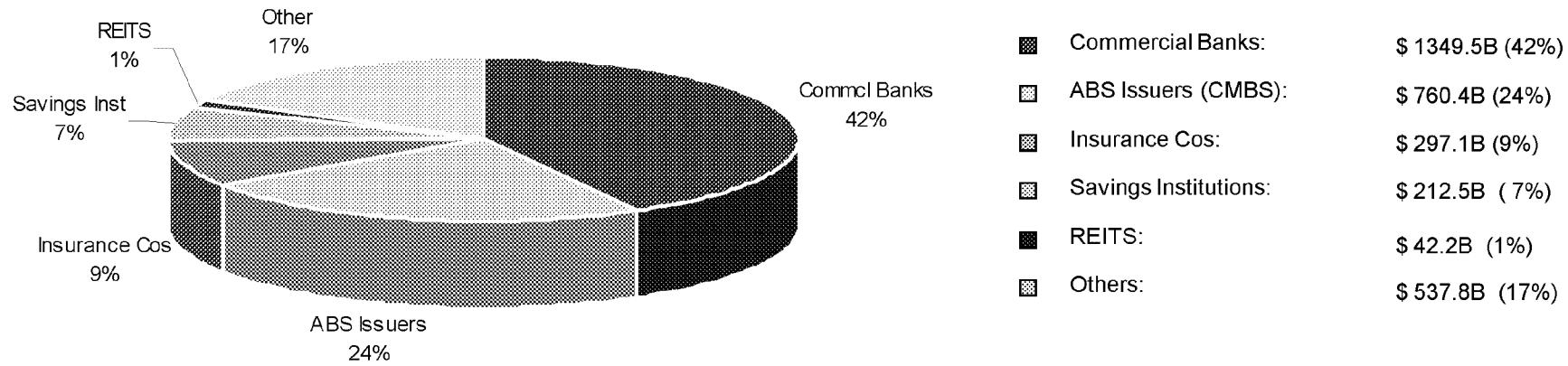
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# Overview of the Commercial Mortgage Market

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## Total Commercial Mortgage Whole Loans



*Source: Federal Reserve: 'Flow of Funds Accounts of the US' report. As of 3Q07.  
Includes multifamily residential mortgages and commercial mortgages.*

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# Overview of CMBS Market

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## Types of Investors

<b>Rating Category</b>	<b>Types of Investors</b>
Aaa	Most attractive to money managers, pension funds, banks, insurance companies and hedge funds
Aa and A	A small piece of total structure. Fewer buyers- mostly insurers and money managers
Baa	Appealing to insurance companies and other investors who do not necessarily mark to market. Appealing to CDOs.
Below Investment Grade	Suitable for higher-risk, longer-term bond funds. Appeal to institutions with real estate expertise and the ability to capitalize on pricing inefficiencies. Typically purchased special servicer/B-piece buyer
IOs	Yields attractive to institutions with long-term liabilities. Opportunity for money managers to take credit risk in AAAs. Less appealing to short-term investors.
Floating-Rate Classes	Most suitable for financial institutions with shorter liabilities. Attractive for LIBOR funders such as ABCP conduits; hedge funds.

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LBEX-WGM 000583

# Overview of the CMBS Market

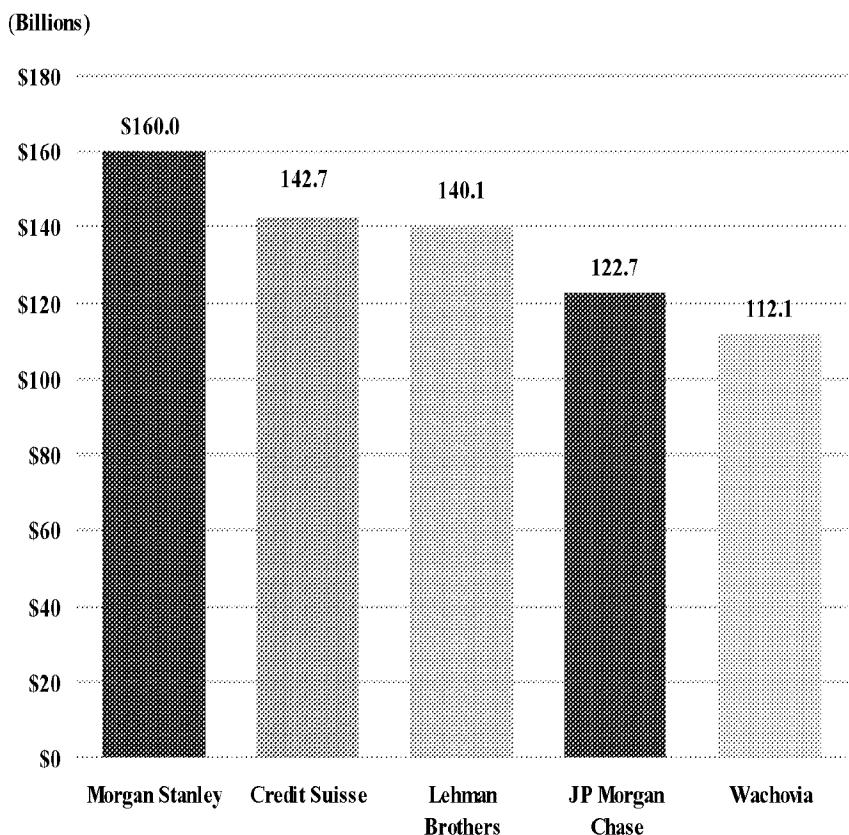
**As the overall market becomes larger and attracts more competition, Lehman remains one of the top lead underwriters of U.S. CMBS over the past fourteen years**

Top US CMBS Underwriters 1994 to 2007

Underwriter	Rank	Size (\$B)	Market Share
Morgan Stanley	1	\$160.0	13.1%
Credit Suisse	2	\$142.7	11.6%
<b>Lehman Brothers</b>	<b>3</b>	<b>\$140.1</b>	<b>11.4%</b>
JP Morgan Chase	4	\$122.7	10.0%
Wachovia	5	\$112.1	9.2%
Deutsche	6	\$97.5	8.0%
Banc of America	7	\$89.3	7.3%
Merrill Lynch	8	\$84.6	6.9%
Goldman Sachs	9	\$72.9	6.0%
Bear Stearns	10	\$64.9	5.3%

• As of January 7, 2008.  
Source: Commercial Mortgage Alert

Top 5 US CMBS Underwriters 1994 to 2007



LEHMAN BROTHERS

# Overview of the CMBS Market

## Lehman Brothers Has Been A Consistent Strong Performer

Fixed Rate Conduit/Fusion Credit Performance by Issuer							
Contributor	Current Balance (\$bn)	60+ Day Delq (% of Curr. Bal.)	Original Bal. (\$bn)	Liq. (% of Original Bal.)	60+ & Liq. (% of Original Bal.)	Age (months)	Credit Indicator (1)
Lehman Brothers	<b>43,660,103.134</b>	<b>0.47</b>	<b>63,643,738.113</b>	<b>0.72</b>	<b>1.49</b>	<b>4.44</b>	<b>(1.12)</b>
Bear Stearns	24,375,036,911	-	27,571,103,509	0.35	0.35	3.12	(0.89)
Morgan Stanley	38,441,419,856	0.14	44,815,069,486	0.73	0.85	3.53	(0.77)
Bank of America	46,161,926,108	0.24	53,243,639,396	0.81	1.01	3.67	(0.60)
Wachovia	67,916,113,021	0.16	75,380,285,746	0.65	0.80	3.01	(0.44)
Deutsche	32,101,293,978	0.32	35,696,142,399	0.84	1.12	3.44	(0.35)
JP Morgan(Chase)	47,126,315,189	0.26	53,310,347,307	1.05	1.27	3.68	(0.40)
CSMC(Column)	53,250,343,153	0.30	66,101,611,982	1.80	2.04	4.50	(0.30)
Greenwich Capital	29,690,483,564	0.65	31,321,354,332	0.18	0.80	2.63	(0.08)
Merrill Lynch	24,271,340,697	0.09	30,181,188,830	1.88	1.95	3.89	0.01
<b>Total / Wtd. Avg. (Top 10)</b>	<b>406,894,375,613</b>	<b>0.26</b>	<b>471,164,481,100</b>	<b>0.93</b>	<b>1.16</b>	<b>3.63</b>	<b>(0.51)</b>
<b>Total / Wtd. Avg.</b>	<b>719,799,727,946</b>	<b>0.34</b>	<b>841,369,995,131</b>	<b>0.99</b>	<b>1.29</b>	<b>3.74</b>	<b>(0.46)</b>

\*As of January 1, 2008.

Source: Trepp, LLC; age adjusted by Lehman Brothers Surveillance Database.

(1) Excess of 60+ day delinquencies and cumulative liquidations over age implied rate.

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# Overview of CMBS Trading

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## History and Growth of Desk

- ◆ **Lehman Brothers CMBS Desk has existed as a specialized trading desk since the mid 1980's**
  - Originally, the Desk began trading GNMA, FHLMC, FHMA and FHA paper
  - During the S&L crisis, the creation of the RTC jump started the trading of un-insured paper
  - Secondary trading was infrequent and most of our trading focused on only Lehman issued paper
  - By the mid 1990's we started to see a substantial increase in liquidity as information flow improved in the market
  - At present, the Desk trades paper from all issuers
- ◆ **Headcount on the desk has remained fairly consistent**
  - Syndicate: Kee Chan, SVP
  - Trading: James Im, SVP – Head Trader  
David Cook, VP – Trader  
Elizabeth Palmer, Associate – Trading Assistant
  - Structuring: Mary Kunka, SVP  
Steven Chang, SVP
  - Surveillance: Wendy Pei, VP – Trading Assistant

# Overview of CMBS Trading

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## Types of Products Traded

- ◆ **Cash Securities**
  - **Fixed-rate transactions**
    - Conduit/Fusion
    - Large Loan
    - Single Borrower/Property
  - **Floating-rate (short term) transactions**
    - Large Loan
    - Single Borrower/Property
  - **Agency Multifamily**
    - FNMA DUS (Delegated Underwriter and Servicer)
    - Project Loans

# Overview of CMBS Trading

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## Types of Products Traded

### ◆ Derivatives Securities

#### – CMBS Index Swaps

- Swaps contracts based on returns of CMBS sub-sector of Lehman Brothers Global Family of Indices, created in Fall 1999
- Swaps began trading off the CMBS Desk in September 2005
- Trading volume:
  - 2006: \$28.6 billion
  - 2007: \$191.8 billion
- AAA 8.5+ year (average life) is the most actively traded index

#### – Single Name Credit Default Swaps (CDS)

- Bilateral contract that enables an investor to buy/sell protection against the risk of default of a reference security, in this case, U.S. CMBS
- Single name CDS began trading with regularity in the Fall of 2005
- Trading volume:
  - 2006: \$803.5mm
  - 2007: \$3.8 billion

# Overview of CMBS Trading

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## Types of Products

- ◆ **Derivatives Securities (cont'd)**
  - **CMBX**
    - Index of CMBS CDS launched in March 2006
    - Each CMBX series is constructed every six months and is comprised of 25 equally weighted CDS on reference obligations from 25 different fixed-rate, U.S. conduit/fusion transactions
    - Six indices per series (AAA, AAA AJ, AA, A, BBB, BBB-)
    - Trading volume
      - 2006: \$3.5 billion
      - 2007: \$30.0 billion

# Overview of CMBS Trading

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## Risk

- ◆ Because the vast majority of our trading involves AAA rated securities, our view of risk is more spread risk than credit risk
- ◆ Approximately 92% of bonds traded are rated AAA
- ◆ No AAA bonds have ever suffered a principal loss
- ◆ Very few investment grade bonds have been downgraded below investment grade
- ◆ Mitigate spread risk through the use of a variety of hedging strategies

<b>Bond Type</b>	<b>FY 2005</b>		<b>FY 2006</b>		<b>FY 2007</b>	
<i>AAA</i>	20.756	84.0%	31.326	88.9%	45.108	91.7%
<i>NON-AAA</i>	1.915	7.8%	2.767	7.9%	2.988	6.1%
<i>IO</i>	0.714	2.9%	0.705	2.0%	0.819	1.7%
<i>AGENCY</i>	1.318	5.3%	0.443	1.3%	0.263	0.5%
<b>Total</b>	<b>24.703</b>	<b>100%</b>	<b>35.242</b>	<b>100%</b>	<b>49.178</b>	<b>100%</b>

(volume traded in billions)

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# Overview of CMBS Trading

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## Revenues

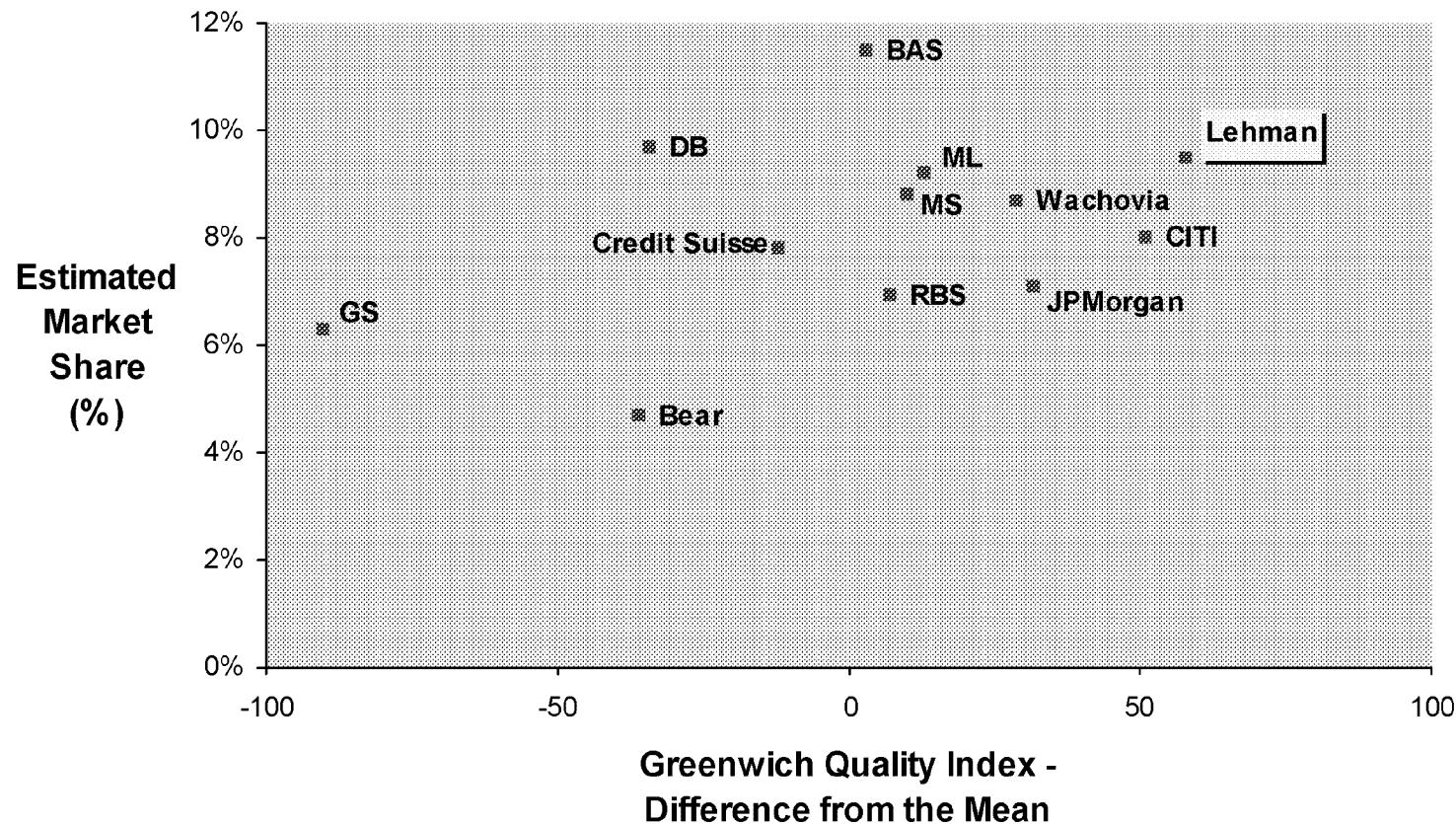
- ◆ **Revenue is primarily generated by capturing greater market share than our competitors in cash and index swap trading**
  - Optimal client penetration achieved by providing the most competitive quotes in Lehman issued CMBS paper and Lehman CMBS Index swaps contracts
  - Always striving to maintain our #1 position in customer satisfaction as evidenced by our #1 ranking by Greenwich Associates Survey over the last five years
  - Leveraging our preeminent surveillance and research capabilities in CMBS to provide the best client service possible
- ◆ **Additional revenue realized by executing trades and taking positions (long/short) in derivative products**
  - On occasion, the Desk will execute trades, based on fundamental analysis performed by the traders along with our CMBS Research Team, to take advantage of inefficiencies that develop between the cash and derivatives markets
  - Vast majority of these positions are taken in respect to the overall hedge profile for our cash securities and whole loan positions on our balance sheet

# Overview of CMBS Trading

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## Revenues Via Market Share

2007 Greenwich Associates Survey- Relationship Quality vs. Secondary Market Share



\* Note: The Greenwich Quality Index score is based upon a normalized composite of all qualitative evaluations. Difference from the mean shown here.

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# Overview of CMBS Trading

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## Purpose of Transactions

### ◆ Cash Securities Market

- Primary responsibility is to support our new issue platform by providing optimum liquidity to our clients
- Strive to always be best bid/offer for Lehman issued paper

### ◆ Derivative Securities Market

#### – CMBS Index Swaps

- Function as a market maker in swaps on the CMBS sub-sector of Lehman Brothers Global Family of Indices, a proprietary index
- Strive to be provide the tightest markets and seize the most market share in Lehman CMBS Index Swaps trading
- Hedge spread risk for cash securities and whole loans on our balance sheet

#### – CMBX

- Operate as a market maker in the CMBX indices for our clients
- Hedge spread/default risk for cash securities and whole loans on our balance sheet

#### – Single Name CDS (Credit Default Swaps)

- Assist core CMBS clients in taking long/short positions on specific classes of transactions that cannot be easily accomplished via the cash market

# Overview of CMBS Trading

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## Trading Strategies

### ◆ Cash Securities Market

- The Desk's primary responsibility is to support our new issue business by providing the best liquidity in the secondary market to those clients that purchase Lehman Brothers issued paper in the primary market.
- Trading strategies are developed together by the traders, syndicate and research team but the Desk's main responsibility in supporting our new issue platform has always been the focal point.

### ◆ Derivatives Securities Market

- For CMBS Index Swaps and CMBX, the Desk functions simply as a market maker who's main goal is to capture revenue in the bid/ask of those products
- For Single Name CDS, the Desk operates as liquidity provider for our core clients looking to take long/short positions on specific bonds synthetically
- Occasionally, with analysis and input from our CMBS Research Team, strategies are developed to take advantage of market inefficiencies that exist between the cash and derivatives markets

### ◆ Senior Management is made aware of any significant changes in trading strategy but the CMBS Trading Desk remains primarily responsible for development of strategies

- Risk Management does not approve trading strategies

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# Overview of CMBS Trading

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## Front Office Trading and Trade Entry Systems

### Lehman Brothers Proprietary Systems

#### ◆ Risk Analytics for Mortgage Products (RAMP)

- Integrated trading, pricing and risk management system for all positions/trades (cash, derivatives, whole loans)
- Provides daily mark to market pricing for positions and corresponding hedges utilizing Lehman's proprietary analytics

#### ◆ **Smart Ticket**

- Lehman's derivatives trade capture system
- Provides straight-through-processing to Lehman's risk system. Assigns unique Global ID's to all derivative trades

### Non-Proprietary Systems

- ◆ **Bloomberg** – analytics used industry wide to price CMBS bonds for trades. Underlying collateral cashflows modeled at deal closing with information provided by underwriter. Additionally, Bloomberg's messaging functionality is the primary communication tool between traders, salespeople, clients and brokers in the industry
- ◆ **Trepp** – supplier of cashflow models to Bloomberg and RAMP
- ◆ **Intex** – alternate third party cashflow and analytics provider. Used on occasion to value bonds when models are not available on either Bloomberg or Trepp